

THE IMPACT OF THE CHANGE OF THE TAX BURDEN ON THE RELIABILITY OF FINANCIAL INFORMATION: THE CASE OF LITHUANIA

*Gipiene Gailute, Assoc. Prof.
Matuseviciene Lina, PhD Candidate
Buzinskiene Rita, Master*

Vilnius University Kaunas Faculty of Humanities, Lithuania

Abstract

This article presents consequences of the change of the tax burden, analyzes the changes of the tax burden in Lithuania, evaluates the impact of the change of the tax burden on the reliability of the financial information by using the example of Lithuanian enterprises in order to discover whether the tax burden alteration results in changes of the reliability of financial information. It was established that enterprises tampering with labor relations-connected revenue also tamper with activity revenue and expenses, i.e. all the three infringements are usually parallel and simultaneous. It was established that financial information presented by enterprises is unreliable because of the evasion of the tax burden, i.e. on the grounds of this information, information users would take incorrect decisions. The completed research leads to a statement that hypotheses stating that with the decrease of the natural person income tax, state social insurance and mandatory health insurance payments as well as the profit tax, enterprises should not evade the burden of these taxes and the financial information regarding this aspect should be reliable are rejected while the hypothesis claiming that there is a trend of the increase of the value added tax testifying the unreliability of the financial information is confirmed.

Keywords: Tax burden, changes of the tax burden, reliability of financial information

Introduction

Distortion of financial information by employing various methods in order to achieve particular goals is a common phenomenon in many countries of the world. Enterprises striving to evade the tax burden by decreasing it with the employment of illegal practices also distort financial

information, which leads to the unreliability of financial information and to the unjustified decisions of information users. Since the condition of information reliability is listed as focal in works of Lithuanian as well as foreign scholars, the above mentioned incorrect information loses its value; hence, it is important to evaluate what impact on the reliability of financial information is made by the changes of the tax burden.

The object of the research is the impact of the tax burden on the reliability of financial information.

The aim of the article is the evaluation of the changes of the tax burden on the reliability of financial information.

In order to achieve the aim, the following objectives were set:

1. To reveal the consequences of the change of the tax burden;
2. To analyze changes of the tax burden in Lithuania during the years 2009 to 2012;
3. After conducting survey, correlation and expert analysis, to reveal the impact of the changes of the tax burden on the reliability of financial information.

Research methods: analysis of academic writings, synthesis, abstraction, survey analysis, correlation analysis, expert survey evaluated with the coefficient of concordance.

Consequences of the alterations of the tax burden

In academic writings, the index of the tax burden is usually defined as the ratio of tax proceeds and the gross national product (Elschner & Schwager, 2005; Callihan, 2002; Rimas & Stačiokas, 2004; Novošinskienė & Stankauskaitė, 2010; Bivainis & Skačkusienė, 2007). Even though it is expected that the increase of the tax rate will lead to the increase of the tax proceeds of the country, however, the heavy tax burden stimulates revenue hiding, i.e. the economic initiative to pay taxes weakens (Novošinskienė & Stankauskaitė, 2010). On the grounds of *Laffer curve*, Enste (2005) indicates that the extent of tax revenue increases with the growth of the tax burden yet only until it reaches a specific limit, i.e. after reaching the highest point of *Laffer curve*, tax revenue starts declining as people strive to evade taxes step by step transferring into the shadow economy from the official economy. At the highest point of *Laffer curve*, the highest amount of taxes is gathered, but it also requires the highest expansion of the public sector, which determines the size of the tax burden. Prior to the highest point of *Laffer curve* being reached, the official economy is at its largest and the shadow economy is at its smallest.

In all the researches dealing with the shadow economy, the tax burden and its increase are mentioned as one of the fundamental causes of the shadow economy (Startienė & Trimonis, 2011; Krumplytė, 2009 a; Goev

& Boshnakov, 2008). Krumplytė (2009 a) indicates that Lithuanian entities would be most incited to withdraw from the shadow economy by the decrease of the tax burden. Startienė, Trimonis (2009) show that in order to reach the low extent of officially unaccounted economy in the country, first of all, maximally diversified tax burden for the population and the market subjects of the country is required. Cebula conducted a research in the USA which established that due to the increase of the limit tax tariff by one per cent, shadow economy increases by 1.4 per cent (Sharpe, 2007).

Schneider (2006) indicates that the shadow economy may be manifested by conducting illegal and legal activity. Illegal activity may feature trade and/ or exchange of stolen or smuggled goods, drugs, prostitution, frauds, etc. Legal activity may involve tax evasion if some revenue is not declared or goods exchange is conducted; besides, the tax burden may be attempted to decrease by employing legal means.

Schneider and Buehn (2009) claim that the shadow economy is manifested when the production and services are deliberately hidden due to the following reasons: in order to avoid revenue, added value or other taxes or social insurance payments, in order to help avoid some legal standards of the labor market such as the minimal wages, the maximal working hours, safety standards, etc. and also in order to avoid some administrative procedures such as filling in statistical questionnaires or other administrative documentation.

Krumplytė (2009 b) indicates that in the field of attempts to decrease the tax burden, law violations by profit-seeking legal entities may be classified according to following features:

- Income hiding involving labor relations or other relations possessing the essence of labor relations which may result in the decrease of the burden of the natural person income tax, state social insurance, compulsory health insurance payments and Guarantee fund payments.
- Activity income and expense hiding and tax hiding as well as tax payment decrease and avoidance by applying more favorable law interpretation in order to decrease the burden of various taxes (value added tax, real estate tax, natural person income tax, profit tax, state social insurance payments, compulsory health insurance payments, Guarantee fund payments).

The extent of the shadow economy depends on tax laws, it changes together with them (Novošinskienė & Savickienė, 2006). The shadow economy and its benefits are already considered not only by active business subjects but also by those planning to establish new activity (Zoltan, 2007; Hall & Jorgenson, 1969).

Jakštonytė (2009) conducted a research in Lithuania and established that 59.3 per cent of newly establishing small businesses consider involvement in the shadow economy. In order to decrease the extent of the shadow economy, the Government should involve some policies. McGree (2008) shows that even though Lithuania is attributed to the countries where stringent tax rules are in place, it also falls into the category of countries where resistance to tax hiding is decreasing.

If the behavior of tax payers is assessed in general, one cannot claim that all taxpayers strive to avoid taxes with the increase of the tax burden. Torgler (2003) indicates that three groups of tax payers are singled out: those who pay taxes even though there is no system of fines for tax avoidance; those who do not know how to avoid tax payment; and those who are of low tax ethics and always look for ways of avoiding the tax burden.

With the increase of activity of decreasing the tax burden, impact is made not only on the collection of taxes but also the financial information presented by enterprises is distorted as a better or poorer state of an enterprise than it is in the reality is attempted to be shown. By falsifying financial information or tampering with it, financial information becomes unreliable even though it has the highest potential to impact decisions taken by information users. Decisions taken on the grounds of incorrect and/ or unreliable information are by default incorrect.

Consequently, the extent of the tax burden is one of the factors determining the level of the shadow economy which may manifest itself when legal or illegal activity is conducted. It was established that the phenomena of the shadow economy of Lithuania in terms of tax evasion may be grouped on the basis of three features: hiding of revenue connected with labor relations or other relations possessing the essence of labor relations; hiding of activity revenue and expenses; and tax decrease or evasion by applying more favorable law interpretations. Tax burden evasion not only decreases the tax proceeds but also renders financial information unreliable. Decisions grounded on incorrect and/ or unreliable information are also incorrect.

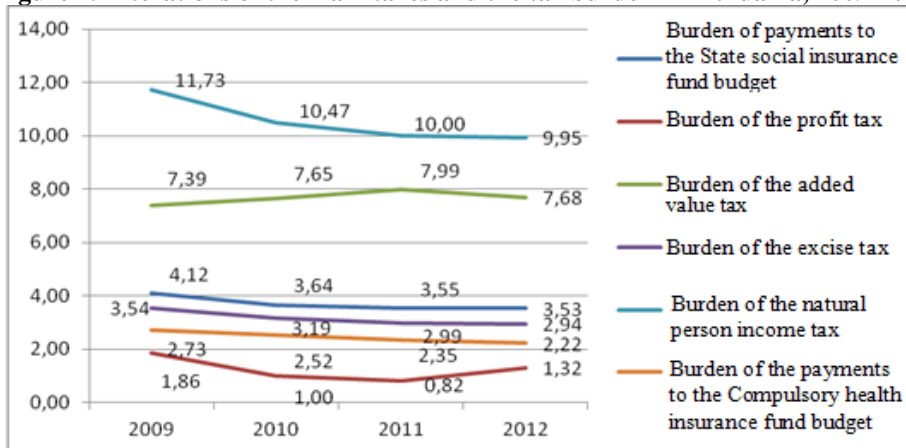
Analysis of tax burden developments in Lithuania

The tax system in Lithuania has been reformed more than once since its establishment by adopting new tax laws or editing already existing ones. This resulted in the changes of the tax burden in Lithuania. In her analysis of the changes of the tax system of the Independent Lithuania and their significance, Novošinskienė (2012) highlights four reforms: the First reform in 1994, the Second reform in 1997-1998, the Third reform in 2002-2003 and the Fourth reform spanning over the period of the years 2009 to 2011. In order to explore the changes of the tax burden in Lithuania, the period of the

Fourth reform, i.e. 2009 to 2011 with the inclusion of the year 2012 was selected for the present analysis.

During the period of 2009 to 2012, the tax burden in Lithuania exhibited the trend of a decrease. The alterations of the key taxes and payments constituting the tax proceeds are presented in Figure 1.

Figure 1. Alterations of the main taxes and the tax burden in Lithuania, 2009-2012



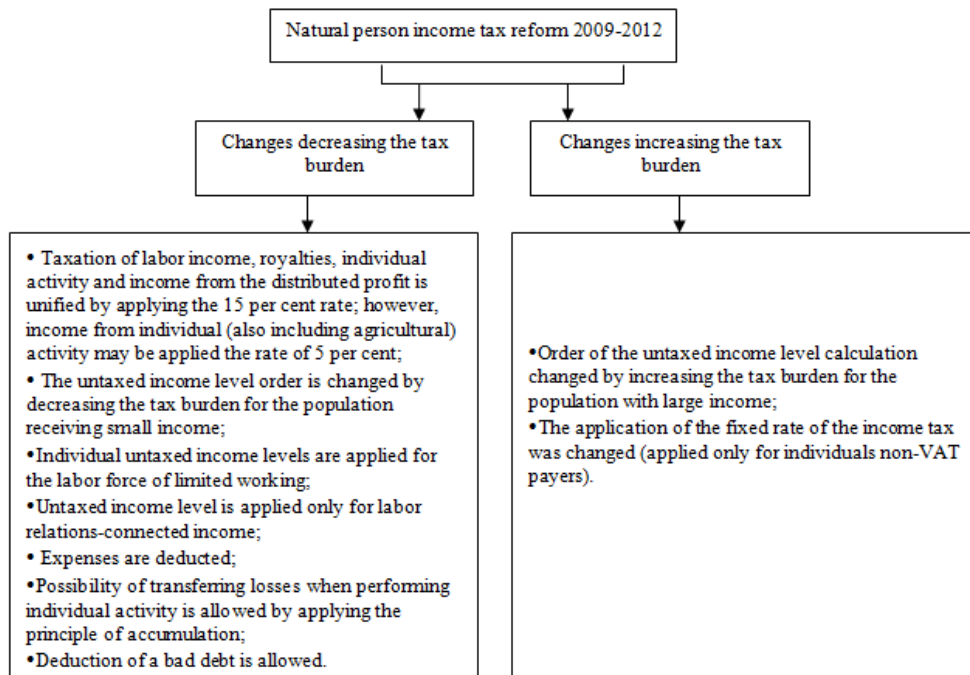
Source: drafted by the authors on the grounds of Statistics Lithuania. (2012). Statistical Yearbook of Lithuania (2012 Catalogue); Statistics Lithuania. (2012). Taxes Paid by Enterprises and Residents; STATISTICS Lithuania. (2013). Gross Domestic Product; Lietuvos Respublikos 2012 metų privalomojo sveikatos draudimo fondo biudžeto rodiklių patvirtinimo įstatymas (Republic of Lithuania Law on the Approval of Compulsory Health Insurance Fund Budget Data of the Year 2012). (2011); Lietuvos Respublikos Seimas (2011) Patvirtintas 2012 m. Valstybinio socialinio draudimo fondo biudžetas (The Approved Budget of the State Social Insurance Fund of the Year 2012).

As the data in Figure 1 demonstrates, the burden of all the main taxes and payments in Lithuania except for the added value and profit taxes tended to decrease during the researched period. Of all the explored taxes and payments, the heaviest tax burden is imposed by the state social insurance payment which affects enterprises more than the population while the least significant is the profit tax which is only paid by enterprises. The burden of the value added tax which is incurred by the ultimate consumer (which is usually the population) showed a trend of increase during the researched period; it only slightly decreased during the last year (2012); however, if the years 2012 and 2009 are compared, the burden of this tax increased. The burden of the profit tax had a trend of decreasing prior to 2012 while it increased in 2012.

In order to find out what caused these trends of the tax burden, it is purposeful to research the reform of each tax separately by outlining the main characteristics of the reforms. Figure 2 presents an evaluation of the

reform of the natural person income tax from the perspective of the changes of the tax burden.

Figure 2. Evaluation of the Natural Person Income Tax Reform 2009-2012 in Terms of the Changes of the Tax Burden



Source: drafted by the authors on the grounds of Novošinskienė, A. (2012) Nepriklausomas Lietuvos mokesčių sistemos raidos tyrimas (A Research into the Development of the Tax System of the Independent Lithuania); Novošinskienė, A., & Slavickienė, A. (2012) Mokesčių reformos ir naštos tyrimas Lietuvoje (A Research of the Tax Reform and the Tax Burden in Lithuania); Novošinskienė, A., & Slavickienė, A. (2010) Lietuvos mokesčių sistemos reformos tyrimas (A Research into the Tax System Reform of Lithuania).

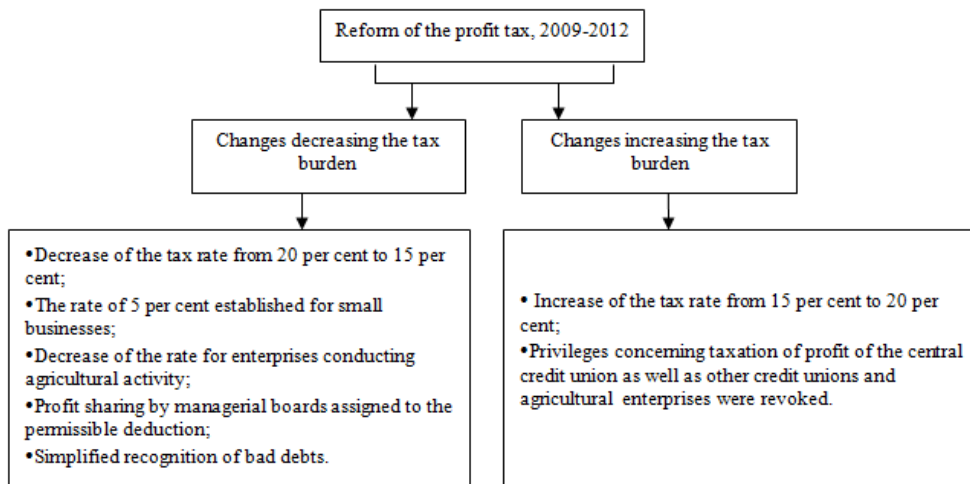
As the data of Figure 2 shows, the natural person income tax was reformed by involving more changes leading to the decrease of the tax burden rather than resulting in its increase. During the researched period, the rate for the taxation of all income was unified at 15 per cent; however, income from individual activity (including agricultural activity) obtained from manufacturing, trade, services (except for income obtained from the activity of the free professions and securities), the decreased rate of 5 per cent is applied (Novošinskienė & Slavickienė, 2012). During the researched period, the order of the untaxed income level (abbreviated as NPD) application was changed – the untaxed income becomes progressive as the tax burden is decreased for individuals with low income while it is increased for those with high income even though the rate remains proportional. Novošinskienė and Slavickienė (2010) claim that this method of asset redistribution is more transparent. The tax burden is also decreased for

individuals with limited ability to work; their untaxed income level is higher. Untaxed income is applied only for income connected with labor relations, i.e. income from the business license-based work is not calculated into the amount of the annual income. Novošinskienė and Slavickienė (2012) state that this taxation is fair as the natural person income tax is paid when acquiring a business license. These authors approve the innovation that the fixed amount of income may only be selected by those individuals who are not VAT payers as the income of VAT payers is much higher; hence they are also required to pay more taxes. The tax burden imposed upon these individuals increases.

When reforming the natural person income tax, major attention was paid to individual activity. In order to provide incentives to the population to be engaged in this activity, the tax burden was decreased: not only was the rate decreased but also the experienced expenses were subtracted from the revenue, and a possibility of transferring losses is applied by involving the principle of accumulation; an opportunity to subtract a bad debt from the revenue is created if it developed during the taxation period.

Figure 3 presents the evaluation of the profit tax reform in terms of the tax burden change. As the data of Figure 3 shows, when reforming the profit tax, there were changes leading to both its increase and the decrease; yet, there were more alterations leading to the decrease of the tax burden. Even though the tax rate was increased by 5 percentage points (i.e. from 15% to 20%), yet it was decreased to the previous rate already in 2010. Novošinskienė and Slavickienė (2010) claim that the decision of the Government to increase and afterwards decrease the profit tax rate badly harmed enterprises. It was a hurried decision taken without adequate consideration. Even though when increasing the tax burden, privileges were annulled in terms of the taxation of the profit of the central credit union, other credit unions and agricultural enterprises, however, enterprises conducting agricultural activity were previewed the smaller burden of the tax (the rate of 5%). This privilege was also previewed for minor businesses corresponding to specific defined requirements. Besides, a few other tax burden decreasing alterations were also implemented: profit sharing among the managerial and board members is attributed to legally allowed deductions, which, according to Novošinskienė and Slavickienė (2012), will decrease the taxed profit of enterprises thus also decreasing the tax burden; in addition, the recognition of bad debts was simplified, i.e. they can be recognized to be hopeless if there are no possibilities of recovering these debts after more than a year. A debt may be considered bad if it is registered as such during the taxation period or if the debtor is bankrupt, dead or liquidated (Novošinskienė & Slavickienė, 2012).

Figure 3. Evaluation of the Profit Tax Reform 2009-2012 in Terms of the Changes of the Tax Burden



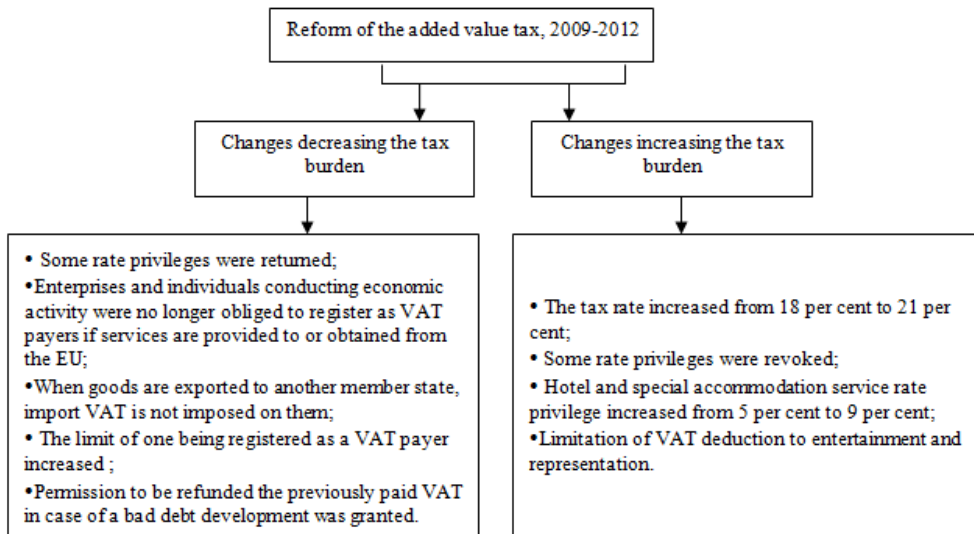
Source: drafted by the authors on the grounds of Novošinskienė, A. (2012) *Nepriklausomos Lietuvos mokesčių sistemos raidos tyrimas (A Research into the Development of the Tax System of the Independent Lithuania)*; Novošinskienė, A., & Slavickienė, A. (2012) *Mokesčių reformos ir naštos tyrimas Lietuvoje (A Research of the Tax Reform and the Tax Burden in Lithuania)*; Novošinskienė, A., & Slavickienė, A. (2010) *Lietuvos mokesčių sistemos reformos tyrimas (A Research into the Tax System Reform of Lithuania)*.

If a general evaluation of the tax reform is conducted, a few drawbacks may be listed: large expenses of administration, limitation of some expenses, complications in establishing the limit of taxation (Novošinskienė, 2012) and the term of profit tax declaration is shortened; hence enterprises also have less time for drafting their sets of financial statements (Novošinskienė & Slavickienė, 2012).

Figure 4 presents the evaluation of the added value tax reform in terms of the tax burden change. As the data in Figure 4 shows, when conducting a reform of the added value tax, a number of alterations were made both in terms of increasing and decreasing the tax burden. Even though initially some privileges of the tax rate were revoked (concerning medications, books, newspapers, magazines, hotel services), however, later on they were reinstated; only the hotel and special accommodation services had the privilege decreased by four percentage points. Enterprises and residents providing goods to the EU and purchasing goods in the EU were not mandated to register themselves as VAT payers if their income does not exceed a specific sum of money, and a right to be delisted from VAT payers is established. A VAT privilege is previewed: when goods are imported with the knowledge that they will be exported to another member state they are not charged import VAT. Besides, the tax burden is decreased by establishing a higher limit above which the registration as a tax payer is

mandatory. One more key privilege at a time of economic recession is approved, namely, the possibility of being refunded the previously paid VAT if a bad debt had accumulated.

Figure 4. Evaluation of the Added Value Tax Reform 2009-2012 in Terms of the Changes of the Tax Burden



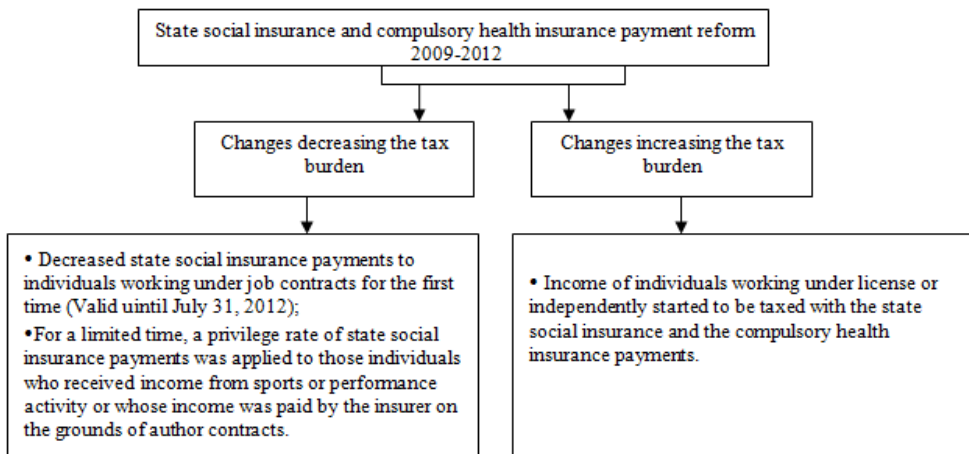
Source: drafted by the authors on the grounds of Novošinskienė, A. (2012) Nepriklausomos Lietuvos mokesčių sistemos raidos tyrimas (A Research into the Development of the Tax System of the Independent Lithuania); Novošinskienė, A., & Slavickienė, A. (2012) Mokesčių reformos ir naštos tyrimas Lietuvoje (A Research of the Tax Reform and the Tax Burden in Lithuania); Novošinskienė, A., & Slavickienė, A. (2010) Lietuvos mokesčių sistemos reformos tyrimas (A Research into the Tax System Reform of Lithuania).

When dealing with the changes increasing the added value tax burden, the most important one is the increase of the tax rate by three percentage points which had the heaviest impact on the increase of the VAT burden. Besides, some privileges were annulled or the privileged tax rate was increased and assignments to entertainment and representative purposes were limited.

When dealing with the changes of the tax burden related with the excise tax, it may be observed that the following actions took place: some excise tax rates were decreased while others were increased (Lietuvos Respublikos akcizų įstatymo pakeitimo įstatymas (The Law on the Alteration of the Excise Law of the Republic of Lithuania), 2004).

Figure 5 presents an evaluation of the state social insurance and compulsory health insurance payments from the point of view of the tax burden.

Figure 5. Evaluation of the State Social Insurance and Compulsory Health Insurance Payments Reform 2009-2012 in Terms of the Changes of the Tax Burden



Source: drafted by the authors on the grounds of Novošinskienė, A. (2012) Nepriklausomas Lietuvos mokesčių sistemos raidos tyrimas (A Research into the Development of the Tax System of the Independent Lithuania);; Novošinskienė, A., & Slavickienė, A. (2010) Lietuvos mokesčių sistemos reformos tyrimas (A Research into the Tax System Reform of Lithuania);; Valstybinio socialinio draudimo fondo valdyba. (2011) Valstybinio socialinio draudimo vykdymas 2010 metais (Implementation of the State Social Insurance in the Year 2010).

As the data in Figure 5 shows, during the researched period, the tax burden increased for natural persons involved in individual activity or working independently. Novošinskienė (2012) claims that the introduction of the compulsory state social insurance and compulsory health insurance payments for the above mentioned individuals made the system fairer. However, during the researched period, several alterations leading to the decrease of the tax burden were also introduced, i.e. the tax burden imposed on both the employee and the employer was decreased when an individual is employed under a job contract for the first time; besides, temporary reduced rates of state social insurance payments were introduced for individuals gaining income from sports or performance activity or on the basis of author contracts from their insurer.

On the whole, it is possible to claim that during the period of the years 2009 to 2012, the tax burden showed a trend of decreasing in Lithuania. The main taxes and payments defining the tax burden (except for the added value tax and the profit tax), namely, the natural person income and excise taxes, the compulsory health insurance and state social insurance payments decreased during the researched period. The burden of the added value tax exhibited the trend of increasing prior to the year 2011 while it slightly decreased in 2012. The burden of the profit tax showed the trend of

decreasing before 2011, yet it slightly increased in 2012. If the reform of each tax is considered separately, it may be observed that the reforms of the natural person income and profit taxes and state social insurance as well as compulsory health insurance payments mostly resulted in tax-decreasing changes while the implementation of the added value tax reform led to multiple both tax increasing and tax decreasing alterations. The most important change determining the increase of this tax is the increase of the rate by three percentage points which ultimately determined the increase of the burden of the added value tax in Lithuania during the researched period.

Results of the research of the impact of the tax burden alterations on the reliability of financial information

As it was established that alterations of the tax burden determine the extent of the shadow economy thus defining the reliability of financial information, a research was conducted with the objective of its results approving or negating a statement. The way of measurement of the impact of the tax burden change on the financial information is questionnaire filling and an expert survey. The questionnaire research was conducted by involving 73 Lithuanian enterprises.

On the grounds of the conducted analysis of the tax burden changes in Lithuania during the period of the years 2009 to 2012, the following hypotheses are put forward:

H1: As the burden of the natural person income tax and the state social insurance as well as the compulsory health insurance payments showed a trend of decreasing during the years 2009 to 2012, legal persons did not implement hiding of revenue connected with labor relations; hence financial information is reliable in terms of this aspect;

H2: As the burden of the profit tax decreased in 2012 in comparison with 2009, legal persons did not hide their activity revenue, they made no activity expense corrections; hence financial information is reliable in terms of this aspect;

H3: As the burden of the added tax value increased in 2012 in comparison with 2009, legal persons who are also payers of the added value tax implemented activity revenue hiding and made activity expense corrections; hence financial information is unreliable in terms of this aspect.

After completing the questionnaire survey, it was established that even 80 per cent of the explored enterprises mentioned the fact of tax avoidance while 20 per cent claimed that they do not avoid taxes. When enquiring what law violations were involved in evading the tax burden, all the three suggested variants were marked: about 92 per cent of those evading the tax burden admitted that they had been hiding work relations-connected

revenue and activity revenue while 88 per cent of tax evaders mentioned that they had also performed expense corrections.

In order to establish whether one case of violation is followed by other violations or there is no relationship among violations, the correlation relationship of law violations when seeking to avoid the tax burden was checked (Table 1).

Table 1. Matrix of correlations

Correlation quotients between law violations		Hiding of work relations-connected revenue	Hiding of activity revenue	Corrections of activity expenses
Hiding of work relations-connected revenue	correlation quotient	1	0.345**	0.302*
	<i>p</i> value	-	0.007	0.040
Hiding of activity revenue	correlation quotient	0.345**	1	0.503**
	<i>p</i> value	0.007	-	0.000
Corrections of activity expenses	correlation quotient	0.302*	0.503**	1
	<i>p</i> value	0.040	0.000	-

* means that the level of reliability is set at 0.05; ** means that the level of reliability is set at 0.01.

Source: drafted by the authors.

As the data of Table 1 shows, medium level correlation was established between activity revenue hiding and activity expense corrections; weak correlation was established between work relations-connected revenue and activity revenue as well as activity expense corrections. It may be stated that enterprises tampering with labor relations-connected revenue also correct activity revenue and expenses; i.e. all the three violations are usually conducted simultaneously. The above mentioned relationship is statistically significant as *p* value in all the three cases is lower than the level of reliability that had been set.

The questionnaire showed the extent of the evasion of the tax burden. By researching how many per cent the gross salary, the natural person income tax and the activity revenue would increase and how much activity expenses would decrease if the explored law violations were not involved, two trends were outlined: a part of the participating enterprises (55 per cent) believed that it was in the range of 11 to 40 per cent while the remaining enterprises (45 per cent) chose the option of 41 to 70 per cent. Expert evaluation was employed. When a trend could be singled out that all the listed elements would change at the same percentage rate, experts were posed one question in which all the variable amounts were used. The experts were asked to give numerical values '1' or '2' (correspondingly) to the

enterprises whose wages, natural person income tax and sales revenue would increase and the expenses would decrease if law violations were not committed at 40 per cent and 70 per cent levels. In order to assess expert evaluations, averages of expert evaluation rates were calculated (Table 2).

Table 2. Averages of expert evaluation rates

	Rank average
Type 1 enterprise (up to 15 members of staff, sales revenue during a financial year is under 1,000,000 LTL, the book value of the assets is under 1,000,000 LTL, the enterprise is a VAT payer).	4.70
Type 2 enterprise (up to 15 members of staff, sales revenue during a financial year is under 1,000,000 LTL, the book value of the assets is under 1,000,000 LTL, the enterprise is not a VAT payer).	4.70
Type 3 enterprise (from 16 up to 250 members of staff, sales revenue during a financial year is 1,000,000 to 10,000,000 LTL, the book value of the assets is 1,000,000 to 6,000,000 LTL, the enterprise is a VAT payer).	4.70
Type 4 enterprise (from 16 up to 250 members of staff, sales revenue during a financial year is 1,000,000 to 10,000,000 LTL, the book value of the assets is 1,000,000 to 6,000,000 LTL, the enterprise is not a VAT payer).	2.30
Type 5 enterprise (above 250 members of staff, sales revenue during a financial year exceeds 10,000,000 LTL, the book value of the assets exceeds 6,000,000 LTL, the enterprise is a VAT payer).	2.30
Type 6 enterprise (above 250 members of staff, sales revenue during a financial year exceeds 10,000,000 LTL, the book value of the assets exceeds 6,000,000 LTL, the enterprise is a VAT payer).	2.30

Source: drafted by the authors.

As the data of Table 2 indicates, the experts outlined that the gross salary, the natural person income tax and the activity revenue should increase while the activity expense should decrease at a higher percentage rate in the small size and medium size enterprises VAT payers, at a lower percentage rate – in the medium-to-large size and the large size enterprises VAT non-payers. In order to establish whether expert evaluation is not contradictory, whether they are logically consistent and whether further conclusions may be based on them, Kendall's W coefficient was calculated (Table 3).

Table 3. Kendall's W test results

N	10
Kendall's W	0.640
Chi-Square	32.000
df	5
Asymp. Sig.	0.000

Source: drafted by the authors.

As the data of Table 3 shows, the obtained Kendall's coefficient of concordance W value is 0.640 indicating that the opinion of the experts is relatively uniform; hence, the expert evaluation should be considered reliable. The concordance is important for statistics as the p value is lower than the established level of reliability.

The results of the research demonstrate that enterprises avoiding the tax burden not only decrease the natural person income tax, state social insurance, compulsory health insurance and Guarantee fund payments together with the burden of the profit tax and the added value tax but they also confirm that the financial information they present is unreliable, i.e. information users would take incorrect decisions on the basis of this information.

In conclusion, the research revealed that there are more entities avoiding the tax burden than those not avoiding it. It was established that enterprises tampering with the labor relations-connected revenue also adjust activity revenue and expenses, i.e. all the three violations are usually involved simultaneously. It was established that the gross salary, the natural person income tax and the activity revenue should increase while the activity expense should decrease at a higher percentage rate in the small size and medium size enterprises VAT payers, at a lower percentage rate – in the medium-to-large size and the large size enterprises VAT non-payers. It was discovered that the financial information presented by enterprises is unreliable because of the evasion of the tax burden, i.e. on the grounds of this information its users would make incorrect decisions. *The first and the second hypotheses* stating that with the decrease of the burden of the natural person income tax, the state social insurance and the compulsory health insurance payments as well as the profit tax, enterprises should not avoid the burden of these taxes and consequently the financial information should be reliable in this field *are rejected* while *the third hypothesis* indicating the trend of the increase of the added value tax determining the unreliability of financial information *is validated*.

Conclusion

The extent of the tax burden is one of the factors determining the level of the shadow economy which may manifest itself when legal or illegal activity is conducted. It was established that the phenomena of the shadow economy of Lithuania in terms of tax evasion may be grouped on the basis of three features: hiding of revenue connected with labor relations or other relations possessing the essence of labor relations; hiding of activity revenue and expenses; and tax decrease or evasion by applying more favorable law interpretations. Tax burden evasion not only decreases the tax proceeds but

also renders financial information unreliable. Decisions grounded on incorrect and/ or unreliable information are also incorrect.

It is possible to claim that during the period of the years 2009 to 2012, the tax burden showed a trend of decreasing in Lithuania. The main taxes and payments defining the tax burden (except for the added value tax and the profit tax), namely, the natural person income and excise taxes, the compulsory health insurance and state social insurance payments decreased during the researched period. The burden of the added value tax exhibited the trend of increasing prior to the year 2011 while it slightly decreased in 2012. The burden of the profit tax showed the trend of decreasing before 2011, yet it slightly increased in 2012. If the reform of each tax is considered separately, it may be observed that the reforms of the natural person income and profit taxes and state social insurance as well as compulsory health insurance payments mostly resulted in tax-decreasing changes while the implementation of the added value tax reform led to multiple both tax increasing and tax decreasing alterations. The most important change determining the increase of this tax is the increase of the rate by three percentage points which ultimately determined the increase of the burden of the added value tax in Lithuania during the researched period.

The research revealed that there are more entities avoiding the tax burden than those not avoiding it. It was established that enterprises tampering with the labor relations-connected revenue also adjust activity revenue and expenses, i.e. all the three violations are usually involved simultaneously. It was discovered that the financial information presented by enterprises is unreliable because of the evasion of the tax burden, i.e. on the grounds of this information its users would make incorrect decisions. *The first and the second hypotheses* stating that with the decrease of the burden of the natural person income tax, the state social insurance and the compulsory health insurance payments as well as the profit tax, enterprises should not avoid the burden of these taxes and consequently the financial information should be reliable in this field *are rejected* while *the third hypothesis* indicating the trend of the increase of the added value tax determining the unreliability of financial information *is validated*.

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